Will the renminbi be a safe-haven currency?

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Why is this an interesting question?

- Taylor (2011) interprets renminbi internationalisation as China supplying (as well as demanding) safe assets.
- Safe assets defined by rating, liquidity, accessibility.
- But safe haven asset as well?
  - Like the Japanese yen, another big net creditor?
  - Or not a safe haven, like the Korean won?

Safe haven defined

- A safe haven currency is strong when risky asset prices weak.
- Operationally, safe have currency rises when VIX rises.

Two approaches to question

- Look at behaviour of renminbi in stress periods.
- Look at (expected) interest rate of renminbi.

Behaviour of renminbi in stress period 1
Asian financial crisis, 1997-98

Behaviour of renminbi in stress period 2
Global financial crisis, 2007-09
Behaviour of renminbi in stress period 3
Strains in late 2011

Behaviour of renminbi in stress period 4
Strains in late 2011: CNH depreciates, too

Summary
- When markets stressed, authorities stabilise renminbi/$.
- However, market-set renminbi/$ (NDF, CNH) sells off then.
- So answer depends on official vs market renminbi.

Interest rate of renminbi 1
- Safe haven currencies tend to have low interest rates.
  - Swiss franc.
  - Japanese yen.
- When VIX rises, higher yielding currencies sell off.
- Renminbi interest rates are middling.

Interest rate of renminbi 2

Interest rate of renminbi 3
- Question is not where are renminbi interest rates now.
- Rather, where will they be?
Conclusion

- From performance of market-driven renminbi during period of stress, renminbi will not be a safe-haven currency.
- From perspective of prospective yields, renminbi not a safe haven.
- Still, renminbi an attractive investment for official reserve managers:
  - Growing trade share.
  - Yield.
  - More stable than many currencies in stressed periods.